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Recommendations of the Board of Auditors

UNDP: Report on the implementation status of the recommendations of the Board of Auditors, 2004-2005

Report of the Administrator

Summary

Pursuant to Executive Board decision 2007/10, the present report provides an update of audit implementation status as well as key management measures undertaken in addressing the main recommendations raised by the United Nations Board of Auditors (BOA) for the biennium ended 31 December 2005 (A/61/5/Add.1). Since the last update to the Executive Board in January 2007 (DP/2007/14), UNDP has achieved a 91 per cent implementation rate (105 out of 115 audit recommendations). Except for one recommendation that has taken longer than expected, UNDP has implemented all recommendations targeted for completion by the third quarter of 2007. UNDP is on target to implement the remaining 9 per cent, or 10 audit recommendations, by the fourth quarter of 2007.

The present report also provides updates to key areas of interest, as specifically requested by the Executive Board (DP/2007/10), and progress made on strategic management interventions. These include: the adoption of a common and simplified operational framework within the Executive Committee agencies for transferring cash to government and non-government implementing partners using the Harmonized Approach to Cash Transfer (HACT) framework; the proposed risk-based approach to the audit of nationally executed projects, as encouraged by the Audit Advisory Committee; the phased implementation of subregional shared service centres to support selected country offices with capacity issues, especially in financial management and bank reconciliation; the investment in staff professional certification programmes in conjunction with the planned adoption of the International Public Sector Accounting Standards (IPSAS); the planned implementation of a risk-based unit workplan process as part of the enhanced results-based management initiative; and the implementation of an oversight system and other measures to enhance internal controls in the Atlas system.

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Elements of a decision

The Executive Board may wish to note the progress made by UNDP in implementing the recommendations made by BOA for the biennium ended 31 December 2005, and the specific efforts made by management to address the recommendations made, as well as the progress in implementing a specific strategy to address underlying systemic issues.

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Introduction

1. Pursuant to Executive Board decision 2007/10, this paper provides an update of audit implementation status as well as progress made in the implementation of key management measures initiated in addressing the main recommendations raised by the United Nations Board of Auditors (BOA) for the biennium ended 31 December 2005 (A/61/5/Add.1). The management updates provided in this report have also taken into account the comments of the Fifth Committee (through the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) (A/62/355), the status report submitted by BOA to the September 2007 session of the General Assembly (A/62/120,) and the first annual report of the UNDP Audit Advisory Committee (AAC). The report is organized as follows:

Chapter I. Status of implementation of the audit recommendations. An update of the implementation status of the audit recommendations made by BOA for the biennium 2004-2005 since the last update to the Executive Board in January 2007;

Chapter II. Review of progress made in addressing specific areas of interest to the Executive Board. An update of specific management actions in addressing the specific areas identified by the Board (DP/2007/14) as well as a review of management actions initiated to address the main audit recommendations of BOA. The detailed management responses are available as a separate annex (accessible on the website of the Executive Board secretariat).

Chapter III. Review of key initiatives taken to strengthen accountability and organizational responsiveness to audit recommendations in UNDP: This section reviews specific initiatives undertaken by UNDP management in strengthening the culture of accountability and organizational responsiveness to audit recommendations in UNDP.

I. Status of implementation of the audit recommendations

2. In line with the direction provided by the Executive Board (DP/2007/10), UNDP has taken "rapid action to fully implement the audit recommendations within the prescribed time frame". Of the 115 recommendations made by BOA with respect to UNDP accounts for the biennium 2004-2005 (A/61/5/Add.1), UNDP had implemented or otherwise addressed 105 (91 per cent), while 10 (9 per cent) are still in progress. UNDP has implemented all but one of the recommendations targeted for completion by third quarter 2007, and is on target to implement the remaining 9 per cent, or 10 audit recommendations, by the fourth quarter 2007 (see table on page 4).

Implementation status by priority and target completion date

Priority	Implemented * (a)	In progress (b)	In progress by target completion date		Grand total (a) + (b)
			Due Q3, 2007	Due Q4, 2007	
High	25	5	1	4	30
Medium	78	4		4	82
Low	2	1		1	3
Grand total	105	10	1	9	115
% of total	91%	9%			100%

* *'Implemented' includes 17 recommendations pursued on an ongoing basis, as well as two that were overtaken by the event of the partial merger of IAPSO and UNOPS.*

3. Of the 10 remaining audit recommendations, the five high-priority (main) audit recommendations to be addressed by end of 2007 include: (a) the formalization of risk based audit planning methodology for nationally executed (NEX)projects; (b) the implementation of the results-based budgeting to strengthen the linkage between financial expenditures and project results within the enhanced results based management system; (c) the development of procurement benchmarks for both exigency and normal situations; (d) the development of guidelines for the implementation of mandatory procurement plans in UNDP; and (e) the planned migration of the 'Systems, Applications, Products' data processing system, used by Brazil, to Atlas for full, integrated financial and results reporting starting in 2008.

II. Review of progress made in addressing specific areas of interest to the Executive Board

4. As requested by the Executive Board in DP/2007/10, paragraphs 2-9, the present report comprises the management response and status update on progress made by UNDP in addressing specific areas of interest to the Board, namely: (a) nationally executed projects, (b) bank reconciliations, (c) internal controls in Atlas; and (d) progress in mainstreaming risk management into UNDP policies and processes.

Nationally executed projects

5. *Procedural simplification and harmonization with the adoption of the Harmonized Approach to Cash Transfer (HACT) framework.* Pursuant to General Assembly Resolution 56/201 on the triennial policy review of operational activities for development of the United Nations system, UNDP, UNFPA, the United Nations Children's Fund and the World Food Programme (United Nations Development Group Executive Committee Agencies) adopted the HACT framework for transferring cash to government and non-government implementing partners. The year 2007 is the first year in which countries with harmonized programme cycles starting in 2007 are required to implement HACT. Other countries with non-harmonized programme cycles are required to do so by 2008. Its

implementation is expected to reduce transaction costs and lessen the burden that the multiplicity of United Nations procedures and rules creates for its partners. Implementing partners will use common forms and procedures for requesting cash and reporting on its utilization. The harmonized funding agreement and certificate of expenditures form simplifies the paperwork to authorize expenditure by or transfer cash to implementing partners. Jointly conducted assessment (macro- and micro-level) and assurance activities will further contribute to more effective risk mitigation. In collaboration with the other Executive Committee agencies, UNDP will use the results of the macro and micro assessments under HACT to identify areas for capacity building in government institutions, to coordinate resource mobilization and to manage fiduciary risks. The results will also be used to determine the different modalities of cash disbursement and the scope of assurance activities. The adoption of the new harmonized approach is a further step in implementing the Rome Declaration on Harmonization and the Paris Declaration on Aid Effectiveness, which call for a closer alignment of development aid with national priorities and needs.

6. *Planned implementation of a risk-based approach to audit of NEX projects*. In line with efforts to streamline risk management into UNDP policies and practices, and building upon the risk-based country office audit planning methodology implemented since 2006, the Office of Audit and Performance Review (OAPR), as recommended by the United Nations Board of Auditors (BOA) and subsequently encouraged by the Audit Advisory Committee, has proposed a risk based assessment model for the audit of NEX projects. Up to now, all NEX projects with expenditure in excess of $100,000 have been selected for audit. In addition to the high volume of NEX projects to be audited annually (approximately 1,700, at a cost to UNDP of close to $3.9 million annually in audit fees payable to appointed professional audit firms), the current single-threshold, monetary value-based audit requirement policy does not take into consideration relevant risk factors associated with NEX projects in programme countries. The proposed risk-based assessment model takes into consideration quantitative factors – such as past audit performance and magnitude of long-outstanding NEX advances – as well as qualitative factors such as the quality of NEX auditors in previous audits and timeliness of audit follow-up. The proposed risk assessment model is expected to apply a multi-tiered financial threshold for audit based on results of risk assessments. The proposal is currently being reviewed by BOA and is expected to be implemented in 2008.

7. *Enhanced NEX audit support at regional audit centres and tracking of NEX audit performance on the 'balanced scorecard'*. Strengthening NEX and non-governmental organization (NGO) support at the country office level is one of the key areas currently under review by the NEX task force commissioned by the Associate Administrator. Among the key proposals are: a feasibility and cost-effectiveness review of the proposed regionalization of NEX/NGO audit support through the five Regional Audit Service Centres. Audit professionals at the Centres will play central roles in the quality review of the terms of reference of NEX audits drafted by UNDP country offices; in clarifying technical queries from external audit firms appointed to conduct NEX/NGO audits; and in identifying

region-specific NEX audit issues for management action. The involvement of the Centres is expected to facilitate more timely management interventions with a shorter turnaround time for the issuance of NEX evaluation letters, which is currently being managed at the OAPR NEX unit in New York. In addition to regular quarterly status updates to the regional bureaux by OAPR, NEX audit performance and follow-up will be added as a key indicator in the unit-based balanced scorecard.

Bank reconciliation and staff professionalization programmes

8. *Targeted support to country offices with limited capacity in completing bank reconciliation for 2006 year-end closing.* In 2006-2007, UNDP management invested considerable attention and effort in addressing the observation by BOA on the non-performance of monthly bank reconciliations. Besides completing the bank reconciliation for all 615 bank accounts for the period 2004-2005 in May 2006, UNDP made comprehensive efforts to address system issues, including simplifying the bank reconciliation process and providing additional training and support for country offices with limited capacity. In addition, the Office of Finance and Administration (OFA), together with professional accountants from external firms, provided targeted assistance to country offices to enable them to complete their 2006 bank reconciliations. In a handful of cases, the bank reconciliation process was temporarily centralized in OFA for the purpose of facilitating the 2006 year-end closing. As at March 2007, all UNDP country offices had completed their bank reconciliation up to December 2006, compared to 42 country offices outstanding at the same time last year.

9. *Professional certification programme for staff and establishment of subregional shared service centre.* The varying level of internal staff capacity continues to be a common issue in internal and external audits alike. It is recognized certain factors have given rise to highly complex business processes requiring a higher level of staff competency and Atlas knowledge, including the following: an exponential growth in delivery volume; a surge in non-core funding; the move to results-based management; and the expanding role of UNDP in United Nations coordination and in crisis countries. There is a need to invest in more sustainable ways of increasing internal staff capacity to deal with the higher expectations of our staff. Since 2006, in anticipation of IPSAS implementation in UNDP by 2010, and in an effort to invest in our staff development, UNDP has launched a number of professional certification programmes in which staff are required to study and take a written examination to test their functional knowledge and skills. As at September 2007, close to 2,000 staff were certified in project management; more than 805 professional staff were certified; and another 200 had enrolled in a human resources certification programme. In addition, around 400 finance staff have enrolled in the Financial Training and Certification Programme. In addition to staff professionalization programmes, the Bureau of Management is working with the regional bureaux in establishing subregional shared services centres to deliver more sustainable, cost effective approaches to building internal capacity.

Atlas and internal controls

10. In 2006-2007, UNDP established a number of safeguard measures to address the key internal control concerns raised by BOA. These included: (a) reinforcing the internal control framework guidelines at regional and management training workshops; (b) enhancing the Atlas user's security management system to ensure non-conflicting security profiles when processing user accounts; (c implementing additional audit trail features in the Atlas system to track changes to vendor records, bank accounts and foreign exchange documents; (d) implementing a security question feature for forgotten password requests to better manage potential abuse of access to Atlas; (e) implementing an industry-tested oversight system to track potentially questionable transactions in Atlas and infringement of internal control framework guidelines (f) releasing more specific guidance on the required segregation of duties for asset management and requisition in e-procurement, and (g) managing external access to Atlas within a system control environment. Worthy of specific mention here are the following:

11. *Enhancement of security features in Atlas.* In 2006, UNDP enhanced its Atlas security management system by enforcing the implementation of non-conflicting user roles when assigning user rights to Atlas users. This reinforced the principles of segregation of duties in the internal control framework. In addition, audit trail features were enhanced to track changes to key control documents such as bank accounts and details in vendor records and foreign exchange documents, among others. Security questions and mandatory password changes were implemented to prevent fraudulent use of another Atlas user's access rights and abilities.

12. *Implementation of industry-proven oversight monitoring system.* At the corporate level, UNDP is implementing an oversight monitoring system that will enable management to better monitor and flag unusual transactions, including potential duplicate payments, suspicious vendor records, and non compliance with established financial policies. The system also facilitates data correction at the earliest possible time.

Mainstreaming risk management in UNDP

13. UNDP continues to build on efforts initiated in 2006-2007 in mainstreaming risk management into our policies and practices. 'Enterprise risk management' is an important approach to identifying risks proactively and managing them systematically, thus better achieving objectives while protecting stakeholder interests. The UNDP Risk Management Committee, established in June 2006 and chaired by the Associate Administrator, provides strategic direction and guidance towards that end.

14. In the area of project and programme risk management, UNDP is leveraging the Atlas system to track project risks at the country office levels. Corporate guidelines are being formalized to escalate key risks up the reporting lines based on pre-determined risk profiles. UNDP will also continue to refine the recently approved UNDP evaluation policy (DP/2006/28) to manage programmatic risks by ensuring that all country programmes are supported by a clear monitoring and evaluation plan when presented to the Executive Board for approval. Key 2008 initiatives to further mainstream risk management in our programmatic areas include:

institutionalized enterprise risk management policy, guidelines and online portal (for tracking selected risk areas); risk-based unit-level work planning; and a corporate risk manager training programme.

15. In the area of financial management, key financial risks such as bank reconciliations and outstanding NEX advances are tracked using the Atlas 'dashboard'. Financial and mitigation strategies are discussed in quarterly financial reviews with regional bureau directors. A quarterly financial one-pager for country resident representative is being prepared by OFA to enable the office to focus on specific current and emerging financial risks. In addition, the UNDP balanced scorecard continues to be enhanced to track and report on performance against organizational risks, including NEX audit results and audit implementation rates at the country office level. In the area of procurement and contract management, UNDP continues to sharpen its fraud policy, codified since 2005, to clarify responsibility for reporting allegations of fraud. Specific anti-fraud and anti-corruption guidelines have been detailed in recent updates of the UNDP procurement and contract management user guide to deal with potential risks of fraud and corruption in procurement, especially in emergency and crisis situations. In addition, UNDP has established and disseminated formal procurement protest procedures for suppliers or organizations wishing to file specific complaints against UNDP procurement policies or processes, including specific procurement awards.

16. In the area of human resources management and ethics, UNDP identified a number of accountability instruments in 2007, with the objectives of reinforcing expectations of ethical standards and professional conduct, and promoting greater transparency and care in our business processes. Key initiatives rolled out or to be rolled out in 2007-2008 include: (a) An interactive 'Ethics and Code of Conduct' training module (currently being piloted) for all staff; (b) the financial disclosure policy announced by the Administrator in May 2007, which mandates critical staff (including the Chair of Contract Approval Committee at headquarters and in country offices) to file financial disclosure statements, and stipulates that relevant voting members of procurement committees at throughout the organization file statements of impartiality; and (c) the UNDP legal framework for addressing non-compliance with United Nations standards of conduct, released on 22 September 2007, which updates and replaces the Accountability and Disciplinary Measures and Procedures that were approved on 1 January 2004 that have been codified since 2004.

III. Review of key initiatives taken to strengthen accountability and organizational responsiveness to audit recommendations in UNDP

17. UNDP is committed to strengthening accountability and organizational responsiveness to audit recommendations within its overall accountability system. UNDP has demonstrated its management commitment to implementing the BOA audit recommendations with strategic initiatives to address underlying structural and capacity issues arising from our analysis of the audit observations. In addition, UNDP took steps in 2006-2007 to strengthen management oversight of audit issues and implemented relevant management tools and processes. These included: (a) leveraging the independent recommendation and feedback of the independent Audit Advisory Committee on key strategic initiatives and related oversight matters; (b) formalizing the regular review of the "top 15 audit priorities" and accountability matrix for audit follow-up, including regular review at the Operations Group meeting chaired by the Associate Administrator[1]" to address underlying systemic issues; (c) using the web-based UNDP 'audit dashboard' to promote accountability and transparent reporting of audit implementation status by responsible managers and offices; and (d) formalizing periodic country scans to better understand the programmatic, financial, human resource challenges and audit issues for all UNDP country offices

Leveraging the recommendation and feedback of the independent Audit Advisory Committee on key strategic initiatives and related oversight matters

18. Established in June 2006, the UNDP Audit Advisory Committee (comprising five qualified external professionals from public and private organizations) continues to be a central component of our institutional oversight policy. The Committee has had a significant impact, and UNDP senior management has benefited from the independent, constructive and useful interaction during and between the six formal Committee meetings since June 2006. During that period, the Committee reviewed the OAPR audit strategy for 2006-2008; endorsed its annual work plan; and held dialogue with the United Nations Board of Auditors on matters of common concern. It has provided specific comments and recommendations on our approach to the mainstreaming of enterprise risk management, our fiduciary risks associated with NEX projects and, more recently, the change management strategy for the phased roll-out of IPSAS, the draft UNDP accountability framework and the draft oversight policy.

Top 15 audit priorities and formal accountability matrix for audit follow-up

19. The top 15 audit priorities and the accountability matrix for audit follow-up that was presented to the Executive Board at the annual session 2007 as part of the management response to the OAPR report, have been

[1] The practice of identifying a list of top audit issues and the implementation of strategic initiatives to address causes of recurring audit observations were cited by BOA in its report to the General Assembly (A/62/120, paragraph 14) as examples of good practice in the implementation and follow-up of audit recommendations.

useful in providing organizational focus in addressing the key audit concerns. The list is used by the Operations Group (chaired by the Associate Administrator) to monitor progress and to identify systemic audit risks and emerging trends. In line with efforts to clarify accountability in UNDP, the accountability matrix helps elucidate lines of responsibility and accountability for management responses to audit recommendations and expected audit follow-up action. The matrix also specifies the accountability of directors of the regional and headquarters bureaux and resident representatives to the Associate Administrator for prompt management interventions on audit issues and of the Director of OAPR for timely, high-quality audit reports and performing regular analysis of those reports. The list is expected to be reviewed and updated following the 2006-2007 biennium audit.

Use of web-based audit dashboard for transparent reporting and audit follow-up

20. In addition to establishing target completion dates for the implementation of all audit recommendations, the office and staff or managers responsible for taking specific actions are identified on the web-based audit dashboard. The current practice of reporting transparently using a web-based dashboard and regular management review is in line with the recommendation by ACABQ to the Secretary General (A/62/355, paragraph 18) for institutionalizing a follow-up mechanism comprising a regular reporting to a "standing committee" and the adequate use of information technology system to "track audit implementation in real time" with "monitoring throughout the year".

Formalization of periodic country scans

21. Started in early 2007, the periodic country scans enables the Associate Administrator to meet with senior management teams in each bureau understand the unique challenges facing specific countries in their regions. The scans are based on multiple sources of information, such as programmatic delivery figures from an Atlas 'snapshot'; financial performance data from the Atlas dashboard; audit performance results from OAPR and NEX evaluation reports; and the status of the staff professionalization programme from the Learning Resource Centre. The scans provide a shared view of the challenges and management actions required to strengthen financial accountability and sustainability, human resource management and programme management in country offices.

IV. Conclusion

22. UNDP is committed to strengthening accountability and organizational responsiveness to audit recommendations within its overall accountability system. UNDP is formalizing audit follow-up as a key performance indicator in its strategic plan, 2008-2011, to address the top 15 audit priorities with strategic, timely management interventions. UNDP is committed to implementing the audit recommendations of the Board of Auditors (A/61/5/Add.1) within the prescribed time frame and to complementing it with the implementation of strategic initiatives to

address underlying structural and capacity issues arising from our analysis of the audit observations.

23. UNDP will continue to invest in staff capacity building and professionalization programmes, develop alternative and more sustainable measures such as the regional shared services centres to support bank reconciliations and other core business areas.

24. UNDP is committed to working closely with government implementing partners to support the goals of national capacity building. There are challenges as well as opportunities ahead especially in the areas of nationally executed projects. While the implementation of harmonized programming arrangements and the harmonized cash transfer modality is aligned with current OECD/DAC practices, the implementation is still in progress in some country offices. In many cases, the country offices have no direct control over the implementation of audit plans by national implementing partners. UNDP will, in consultation with the Audit Advisory Committee and BOA review specific changes to the current policies and practices in NEX and NEX audits, and will continue to seek the support of the Executive Board in implementing relevant measures including resources to strengthen NEX oversight support in UNDP country offices, headquarters and the five regional audit service centres of OAPR.